



Jennifer J. Johnson, Secretary  
Board of Governors of the Federal Reserve System  
20th Street and Constitution Avenue, NW  
Washington, DC 200551  
Re: Docket No. R-1181

RE: Proposed Revisions to the Community Reinvestment Act Regulations

Dear Secretary Johnson:

We are writing on behalf of Chittenden Corporation, a bank holding company headquartered in Burlington, Vermont, which is comprised of five community banks located in Massachusetts, New Hampshire, Maine as well as Vermont. We **support** the federal **bank** regulatory agencies' (Agencies) proposal to **enlarge** the number **of** banks and saving associations that will be examined under the small institution Community Reinvestment Act (CRA) examination. The Agencies propose to increase the asset threshold from \$250 million to \$500 million **and** to eliminate **any** consideration of whether the small institution is owned **by** a holding company. **This proposal** is clearly a major **step** towards **an** appropriate implementation of the Community Reinvestment Act, and should greatly reduce regulatory burden on those institutions newly made eligible for the small institution examination. Our organization **strongly support** both of them.

When the CRA regulations were rewritten in 1995, the banking industry recommended that community banks of at least \$500 million be eligible for a less burdensome small institution examination. The most significant improvement in the new regulations was the addition of that small institution CRA examination, which actually did what **the** Act required: had examiners, during their examination of **the** bank, **look** at the **bank's** loans and assess **whether** the **bank** was helping to meet the credit needs of the bank's entire community. It imposed no investment requirement on small banks, since the Act is about credit not investment. It added no data **reporting** requirements on small banks, **fulfilling** the promise of the Act's sponsor, Senator Proxmire, that **there** would be no additional paperwork or record keeping burden on banks if the Act passed. And **it** created a simple, understandable assessment test of the bank's record of providing credit in its community. This test considers the institution's loan-to-deposit ratio; the percentage of loans **in** its assessment **areas**; its record of lending to borrowers of different income levels and businesses and **farms** of different sizes; the geographic distribution of its loans; **and** its record of taking action, if **warranted**, in response to written complaints about its performance in helping to meet credit needs in its assessment areas.

Since then, the regulatory burden on **small banks** has only grown larger, including massive new reporting requirements under HMDA, the **USA Patriot Act** and the privacy provisions of the Gramm-Leach-Bliley Act. But the nature of community banks has not changed. When a community bank must **comply** with the requirements of the large institution CRA examination, the costs to and burdens on that community bank increase dramatically.

It is as true today as it was in **1977** when Congress enacted **CRA**, and later in 1995 updated it, that a community bank meets the credit needs of its community if it makes a certain amount of loans relative to deposits taken. A **community bank** is typically non-complex; it takes deposits and makes loans. Its business activities are usually focused on small, defined geographic areas where the bank is known in the community. The small institution examination accurately captures the information necessary for examiners to assess whether a community bank is helping to meet the credit needs of its community, and **nothing** more is required to satisfy the Act.

As the Agencies state in their proposal, raising the small **institution** CRA examination threshold to \$500 makes numerically more community banks eligible. However, in reality raising the asset threshold to \$500 million and eliminating the holding company limitation would substantially retain the percentage of industry assets subject to the large retail institution test. In reality, the percentage would decline only slightly to a little less than 90%. That decline, though slight, would more closely align the current distribution of assets between small and large banks with the distribution that was anticipated when the Agencies adopted the definition of "small institution." Thus, the Agencies, in revising the CRA regulation, are really just preserving the *status quo* of the regulation, which has been altered by a drastic decline in the number of banks, inflation and an enormous increase in the size of large banks. We believe that the Agencies need to provide greater relief to community banks than just preserve We *status quo* of this regulation.

While the small institution test was the most significant improvement of the revised **CRA**, it was wrong to limit its application to only banks below \$250 million in assets, depriving many community banks from any regulatory relief. Currently, a bank with more than \$250 million in assets faces significantly more requirements that substantially increase regulatory burdens without consistently producing additional benefits as contemplated by the Community Reinvestment Act. As our own organization can attest, today even a \$500 million bank often has only a handful of branches. We recommend raising the asset threshold for the small institution examination to at least \$1 billion.

Raising the limit to \$1 billion is appropriate for two reasons. First, keeping the focus of small institutions on lending, which the small institution examination does, would be entirely consistent with the purpose of the Community Reinvestment Act, which is to ensure that the Agencies evaluate how banks help to meet the credit needs of the communities they serve. Second, raising the limit to \$1 billion will have only a small effect on the amount of total industry assets covered under the more comprehensive large bank test. According to the Agencies' own findings, raising the limit from \$250 to \$500


million would reduce total **industry** assets covered by the large bank test by less **than** one percent. According to December 31, 2003, Call Report data, raising the limit to \$1 billion **will** reduce the amount of assets subject to the **much** more burdensome large institution test by only **4%** (to **about 85%**). Yet, the **additional** relief provided would, **again**, be substantial, reducing the compliance burden on more **than** 500 additional banks and **savings** associations (**compared** to a \$500 million limit), *including three of the five bank comprising Chittenden Corporation*. In our view, it is difficult to **justify** subjecting community banks with assets of less than \$1 billion to the **same** regulatory standards **and** requirements that are applied to multi-billion dollar financial organizations with whom we compete.

For these reasons, we urge the Agencies to raise the limit to at least \$1 billion, providing significant regulatory relief while, to quote the Agencies in the proposal, not diminishing "in any **way** the obligation of all insured depository institutions subject to CRA to help meet the credit **needs** of their communities. Instead, the changes **are** meant **only** to address the regulatory burden associated **with** evaluating institutions under **CRA**."

In conclusion, we strongly **support** increasing the asset-size of banks eligible for the small bank streamlined CRA examination process as a vitally important **step** in revising and improving the CRA regulations **and in** reducing regulatory burden. We **also** support eliminating the **separate** holding company qualification for the small institution examination, since it places small community banks that are part of a larger holding company at a disadvantage to their peers and has no legal basis **in the Act**. **While** community banks, of course, still will be **examined** under CRA for their record of helping to meet the credit needs of their communities, **this** change **will** eliminate some of the most problematic and burdensome elements of the current CRA regulation from community banks that are drowning in regulatory red-tape.

Thank you for the opportunity to comment on this most important proposal.

Sincerely,



Cynthia H. Gubb  
Senior Vice President, Director of Community Development and  
**C.R.A.** Officer  
Chittenden **Bank**